

Appendix M

Benefits of Participation and Effects of Suspension From the National Flood Insurance Program

THE BENEFITS OF COMMUNITY PARTICIPATION IN THE NATIONAL FLOOD INSURANCE PROGRAM

The National Flood Insurance Program will help to ensure the wise use of the floodplain areas in your community and reduce the risk of property loss through proper permitting of all floodplain development and the availability of flood insurance. As a participating community every property owner and renter in your community is eligible to purchase flood insurance, regardless of their location. The availability of flood insurance solves many of the real estate/lending issues that occur in non-participating communities, or which could occur if the community were suspended from the Program. [Flood insurance is required as a condition of a loan for structures located in a floodplain.] An additional benefit of participation in the NFIP is that the community is eligible to apply for funds (on a competitive basis) under the 404 Post Disaster Hazard Mitigation Grant program. Also, in the event of a Presidentially declared disaster, residents will have access to forms of disaster assistance which are not available in non-participating communities.

COMMUNITY RATING SYSTEM (CRS) PARTICIPATION A FURTHER BENEFIT

Some Maine communities are already taking advantage of the CRS Program which recognizes community efforts that go beyond the NFIP minimum standards by reducing flood insurance premiums for the community's property owners. All communities participating in the NFIP start out as a Class 10. Each accumulation of 500 points gives the residents in your town a 5% reduction on flood insurance rates. Points are awarded based on credible activities being undertaken in the community.

For example:

The Town of Wells has earned a Class 8 under the CRS, which translates to a 10% premium savings on every flood insurance policy in Wells. As of 02/07/00, there are 636 flood insurance policies in force in Wells and the total premium savings due to the CRS credit is approximately \$41,000! If Wells did not participate in the CRS, the town would revert back to a Class 10 and every policyholder would see a 10% increase in their premium.

If you would like to know more about the CRS, please refer to Chapter 7.



Federal Emergency Management Agency

Region I
J.W. McCormack Post Office &
Courthouse Building, Room 442
Boston, MA 02109

Effects of Suspension from the National Flood Insurance Program

Should a community be suspended from the National Flood Insurance Program (NFIP) the effects are severe. For your information, we have outlined the effects below:

A. The first and foremost consequence is that no new flood insurance policies can be sold within the community and existing policies will expire as they come up for renewal. This is particularly important in view of recent legislation amending the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act) which became effective on May 22, 1989.

Prior to the Stafford Act state and local governments, and certain private non-profit organizations eligible for disaster assistance, have not been penalized for failing to insure their flood prone facilities prior to a major flood disaster. This means that a building and its contents located in a special flood hazard area must be protected by the maximum amount available under the NFIP's standard flood insurance policy in order to qualify for full disaster assistance.

B. The sanctions of the Flood Disaster Protection Act of 1973, as amended, will be imposed. Thus, all forms of direct federal financial assistance for acquisition or construction in the special flood hazard area will cease to be available. This includes:

1. Federal Disaster relief for flooded buildings and their contents, as explained in A. above.
2. All federal grants from such agencies as:
Environmental Protection Agency, Department of Commerce, Department of Housing and Urban Development, and the Small Business Administration, to name a few.
3. All federally insured or guaranteed loans, such as:
SBA, FHA, VA, and Farmer's Home. In addition, banks must notify new or renewal mortgages in flood hazard areas that federal disaster assistance would be restricted for their properties in the event of a flood.

C. Although lending institutions are not prohibited from making conventional mortgages for acquisition or construction purposes within the special flood hazard area of a suspended community; they may be reluctant to issue mortgages on properties without flood insurance protection and to take on the responsibility of a mortgage that cannot be resold on the secondary market to any federal or quasi-federal instrumentality.

D. In communities without a sound floodplain management program, substantially improved or new structures which are allowed to be built with the lowest floor (including basement) below the 100-year flood elevation will have at least a one in four chance of being flooded during the next 30 years. Those built significantly below the 100-year level will have an even higher chance of being flooded. In addition to the increased risk of flood damage, the insurance premiums for structures built this way is based on the actuarial rate rather than the subsidized rate. Actuarial rates can be as high as 25 dollars per 100 dollars of insurance coverage. This could mean that in the next flood, many people who were allowed to build unsafely in the special flood hazard area may suffer an uninsured loss.

It is conceivable local governments may be held liable, because their actions deny the ability of its citizens to purchase flood insurance and does not take positive steps to reduce the exposure of life and property in the face of authoritative scientific and technical data.

In view of all this, it is quite safe to say that a significant economic and social dislocation would take place should a community choose to cease participation in the Flood Insurance Program.

The regulations which a community is being asked to adopt and enforce are really basic common sense. We have scientifically calculated the probable levels of the flood that has a one-percent chance of annual occurrence (100-year Flood). The floodplain management regulations which we require simply attempt to reduce the flood risk through proper and safe construction.

Further information and assistance is available from our office at the above address or call us at (617) 223-9561.